



INVESTING IN SUSTAINABILITY

Progress and performance among the UK's listed house-builders – revisited



EXECUTIVE SUMMARY
SEPTEMBER 2005

Part of WWF's One Million Sustainable Homes Campaign



Executive Summary

This is an executive summary of the report, *Investing in sustainability: Progress and performance among the UK's listed house-builders revisited*, which is the result of a partnership between Insight Investment, the asset manager of HBOS plc, and WWF-UK. The full report can be downloaded at: www.wwf.org.uk/investinginsustainability

HBOS is one of the UK's largest providers of finance to the housing sector. As such, the company recognises that it has enormous potential to promote greater sustainability in that sector. To that end, for two years, HBOS has been working with WWF – the global environmental organisation – in support of its One Million Sustainable Homes (OMSH) campaign. Together, these two organisations have been exploring ways to move sustainability from the fringes to the mainstream of the UK housing sector. To achieve this, we are raising awareness of the environmental and social impacts of people's homes, and exploring incentives, such as new financial products, that would promote more sustainable lifestyle choices.

HBOS pursues a policy of responsible investment through its asset manager Insight Investment. Insight works actively to promote high standards of corporate governance and corporate responsibility in the companies in which it invests. In support of the OMSH campaign, Insight has been working with WWF over the last two years to analyse and engage with major UK-listed developers on sustainability issues. In January 2004, the first benchmark of UK listed house-builders' performance and reporting on sustainability was published, based on analysis carried out during 2003ⁱ. This report follows up that work, charting the progress that those companies have made in demonstrating their commitment to sustainable development, both in terms of how they build their homes and how they report to stakeholdersⁱⁱ.

RESULTS

Insight Investment and WWF are encouraged by, and strongly welcome, the substantial improvement in the practices and reporting of all 12 house-builders assessed in this year's benchmark, as demonstrated by the companies' much improved scores in Table I below. Nevertheless, there is still significant scope for improvement, as explained in detail in the report.

All companies were assessed against an extensive set of criteria that measure their approach to strategy and risk management, and how they address their impact on the environment and on societyⁱⁱⁱ.

Table I: Overall average scores

	2003 average	2005 average
Scores based on engagement	47%	68%
Scores based on reporting	35%	52%

On the whole, the companies now demonstrate a better understanding of the relevance of sustainability issues to their business. This appears to be driven by two important factors: first, at a corporate level, the increased emphasis on non-financial risks and opportunities, and secondly, at a project level, through increasingly demanding planning requirements.

The majority of companies engaged actively, providing detailed evidence and feedback throughout the assessment. We believe that the companies have performed much better in this year's analysis in part due to the ongoing, constructive dialogue maintained between the companies, Insight and WWF over the last two years.

BOX 1: Housing's contribution to the UK's Ecological Footprint.

WWF's Living Planet Report 2004^{iv} states that we are no longer living within the sustainable limits of our planet. If everyone in the world lived as we do in Europe, it would take three planets to sustain the global population. The environmental impact of the housing sector is already considerable. Household energy and water consumption is placing some of the greatest pressure on the global environment. Our homes account for around 30 per cent of the UK's carbon emissions, and 56 per cent of all water use. In addition to the lifetime environmental costs of housing, the construction process can place a huge drain on our natural resources: the construction industry produces 70 million tonnes of waste materials per year. A staggering 19 per cent of this total, or 13 million tonnes, consists of materials that are delivered to site and never used. Fifty-five per cent of all timber used in the UK is used in housing construction^v. It is therefore clear that were houses built according to sustainable principles, we could significantly reduce resource consumption and increase resource efficiency, reducing our ecological footprint.

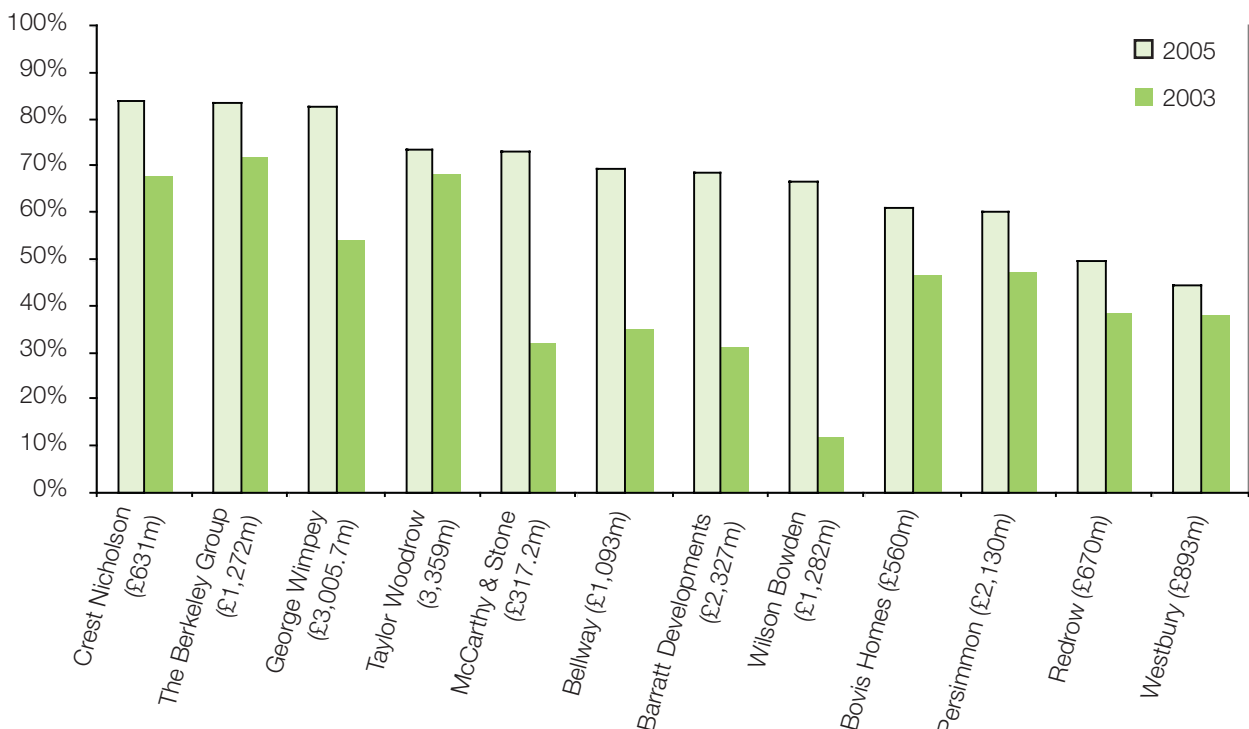
MARKET LEADERS

There are three clear leaders in this 2005 benchmark: Crest Nicholson (84 per cent), The Berkeley Group (84 per cent) and George Wimpey (83 per cent). These three developers stand out because they take an increasingly comprehensive, strategic and systematic approach in responding to policy and market imperatives to deliver sustainable homes and communities. They have integrated sustainability into their business strategies and have set clear objectives and measurable targets for the business as a whole. And, because they have begun to collect data across all operations, they are able to monitor their progress in achieving those objectives and targets. They can provide numerous examples of good practice on a range of issues at site-level, and have begun to understand how their sustainability initiatives add value to their businesses.

However, other house-builders appear to be finding it difficult to keep pace with the evolution of government policy, particularly within the planning process, and are failing to put together comprehensive programmes to respond effectively; their approach is still principally compliance driven, and operates on a site-by-site basis.

As shown in Figure 1 below, 10 of the 12 companies score 60 per cent or above, compared with only three in the 2003 assessment; and the difference between the highest and lowest scoring companies was much reduced, to 42 per cent, this year. The rankings have also changed considerably.

Figure 1: Company ranking based on scores after engagement, in 2003 and 2005



REPORTING LAGS PRACTICE

Perhaps surprisingly, despite the increased quality of the disclosure across the sector, companies' reporting still does not fully reflect their increasingly good practices. This suggests that they need to work harder to ensure that their reporting provides a full and fair reflection of their sustainability programmes in order to gain full recognition from stakeholders of their efforts to address the social and environmental impacts of their developments.

Table II: Comparison of scores based on reporting and scores based on engagement

Company	Scores based on reporting	Scores based on engagement
Crest Nicholson	72%	84%
The Berkeley Group	72%	84%
George Wimpey	60%	83%
Taylor Woodrow	58%	74%
McCarthy & Stone	52%	73%
Bellway	56%	70%
Barratt Developments	59%	69%
Wilson Bowden	37%	67%
Bovis Homes	52%	61%
Persimmon	50%	60%
Redrow	33%	50%
Westbury	29%	45%

ACROSS THE BOARD IMPROVEMENT

As shown by the graph below, companies' scores improved on all three sets of criteria.

Figure II: Average score based on engagement by section, in 2003 and 2005

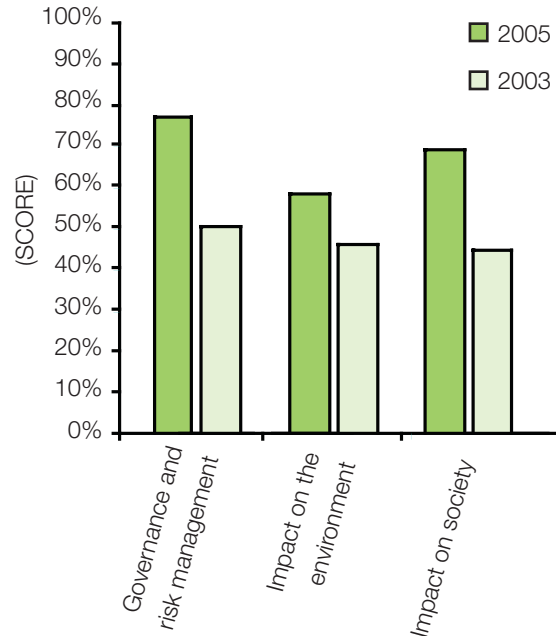


Figure II shows that, since the previous analysis, performance has increased in all aspects of sustainability assessed. The most noteworthy improvement was in relation to the strategy, governance and risk management criteria. Scores in relation to the environmental and social criteria have not increased as much; this is in part because it is more difficult for companies to deliver strong environmental and social performance on-the-ground and provide evidence of having done so.

METHODOLOGY

Twelve house-builders are analysed in this year's report – the same companies as in the first benchmarking assessment, with the exception of Countryside Properties which declined to be included in this year's analysis following the company's privatisation earlier this year. All companies are listed on the FTSE All Share, and together account for approximately 41 per cent of all housing units completed in the UK in 2004.

The companies were evaluated using the same criteria as in the previous benchmark conducted in 2003. The criteria are grouped under three sections – Strategy, Governance and Risk Management, Impact on the Environment, and Impact on Society.

The following commentary provides a summary of the findings of the companies' performance in each of the three areas.

COMPANIES NEED TO TAKE A MORE STRATEGIC APPROACH TO SUSTAINABILITY

In common with the 2003 analysis, companies scored most highly on the first set of criteria. These are designed to assess: the extent to which companies' boards are driving their programmes to address sustainability; how well companies are assessing sustainability-related business risks; whether they are dedicating sufficient resources to implementing sustainability initiatives; and whether they are adopting appropriate policies and reporting on their efforts to operate more sustainably.

On the whole, the companies have significantly improved their scores in this area – this year the average score was 75 per cent compared to 50 per cent in 2003. Scores improved on all criteria in this section of the assessment, but particularly for risk management and board commitment. Most companies' boards now consider sustainability issues on a regular basis. However, few companies were able to articulate effectively a coherent and comprehensive sustainability strategy, either in their reports or during the engagement process. Most still seem to employ a more piecemeal and reactive approach, resulting in a series of ad hoc initiatives. Ideally, companies should have a clear sustainability strategy, with specific priorities and objectives, to provide coherence and direction to the business, arrived at by assessing key business risks and opportunities.

Furthermore, none of the companies explicitly states how addressing sustainability contributes to business and financial performance in their annual report and accounts. To provide greatest relevance to investors, companies should seek to demonstrate how sustainability supports or enhances shareholder value. Performance data and information on cost savings and other fiscal benefits should be included in financial reporting as data becomes more robust and reliable.

MORE CONCERTED EFFORTS ARE NEEDED TO REDUCE ENVIRONMENTAL IMPACTS

All companies also improved their scores in relation to their management of environmental impacts. The average score in this regard has increased from 46 per cent in 2003 to 58 per cent this year. However, this was the lowest score of all three sections and where performance has improved least compared to the last analysis. (This is partly due to the large number of criteria against which companies are assessed, and the level of data required to demonstrate good practice.)

Scores improved for all the environmental issues covered by the analysis, with the exception of transport. Perhaps not surprisingly, the greatest improvement was in areas where regulatory or planning requirements have been tightened (for example, the use of EcoHomes standards has been significantly influenced by the requirements of the social housing sector), or where the greatest immediate financial savings could be made (for example, construction waste). Encouragingly, at least one company was able to provide an example of very good performance on every single issue; were these simply to be adopted more widely, the environmental impacts of house-building in the UK could be reduced enormously.

Notably, none of the companies has yet adopted a comprehensive strategy on climate change, either in terms of addressing how climate change might impact their business nor in terms of how they could contribute to reducing the greenhouse gas emissions of their developments or their customers' lifestyles. Even average Standard Assessment Procedure ratings vary substantially between companies.

Most companies are not using their considerable purchasing power to encourage suppliers to offer more environmentally sound products. The developers are still in the early stages of developing environmental procurement policies and engaging with their suppliers to ask them to supply materials and products with high environmental standards. Even where they do demand certain standards, such as FSC-certified timber, they do not have systems to verify that the products they receive meet those standards.

A notable weakness in almost all of the companies assessed was that they failed to set clear targets on a range of environmental issues or to present performance data in relation to key impact areas, thus making it hard to compare their performance year-on-year, or to that of their peers.

MAXIMISING POSITIVE SOCIAL CONTRIBUTION

Companies have also improved their scores on the 'impact on society' criteria; they have increased from 45 per cent in 2003 to 69 per cent this year, demonstrating better performance against all criteria. However, the socio-economic facets of sustainability are often the least developed aspects of companies' sustainability strategies.

Health and safety is clearly one of the highest priorities for house-builders – their scores on this issue have improved significantly. It is therefore encouraging to find that performance in this area has improved since 2003. Ten out of the 12 companies publicly disclose their reportable^{vi} injury (or RIDDOR) rate, compared to only four companies in the previous survey. However, they typically do not report those rates per 1,000 or 100,000 employees; were they to do so, a more meaningful comparison would be possible year-on-year, and in comparison to other developers.

The companies' scores for stakeholder engagement have also improved since the last assessment, although there is still a considerable gap in understanding with regards to best practice in stakeholder engagement processes. Few companies have yet fully identified, at group level, their key stakeholders and developed strategies to engage with them and address their concerns systematically. And many simply undertake stakeholder consultation exercises, rather than genuinely involving the community in the project design.

Increasing the provision of affordable housing is a key element of the government's sustainable communities plan and thus an important issue facing developers, especially those that operate in the south of England, where supply is weakest. Some of those companies surveyed have, or are developing, strategies to deliver affordable housing, rather than simply responding on an ad hoc basis to planning authority demands. However, many companies are reluctant to expand into this sector because margins are much lower than on private housing.

Providing employment and training are valuable ways in which companies can demonstrate their contribution to this dimension of sustainability. It was therefore encouraging to find that the number of companies addressing employment issues had substantially increased. Several companies provided examples

of how they have worked with local employment agencies or other appropriate partners to provide opportunities for local people and/or the long-term unemployed.

How people live, work, travel and consume in their day-to-day lives makes a significant contribution to the impacts of homes over their lifecycle. While some of the companies are starting to engage more actively with their customers to promote more sustainable lifestyles, few companies do so consistently for all developments. The majority of companies do not provide information to their customers about the often-impressive environmental characteristics of their homes, nor about how they could lead more sustainable lifestyles once they move into their homes. Developers are therefore missing a valuable opportunity to enhance their reputation and demonstrate how their development will enhance their customers' quality of life, both by reducing occupants' environmental impacts and by saving them money.

CONCLUSIONS AND RECOMMENDATIONS

The increasing emergence of drivers for sustainable homes coupled with the increasing demand for new homes in the UK now makes an even more compelling and urgent case for house-builders to integrate sustainability into their business strategies. Business benefits available to companies can include: gaining planning permission more easily; winning more contracts with clients or partners that demand high sustainability standards; mitigating business risks; making savings through greater efficiency and lower resource use; enhancing their reputation with a wide range of stakeholders and differentiating themselves within the market.

RECOMMENDATIONS

The extensive analysis of, and dialogue with, 12 major UK house-builders over the five months of the benchmarking process has yielded a number of recommendations for both companies and government, which we hope will be of value and widely adopted.

Recommendations for house-builders

All UK house-builders, publicly listed and privately owned, should, with respect to sustainability strategy and management systems:

1. Take a strategic, proactive and systematic wide approach to addressing sustainability issues.
2. Adopt a comprehensive, board-approved sustainability policy that integrates environmental, social and economic issues and relates clearly to the overall business strategy.
3. Set clear objectives, management and performance targets and develop a group-wide strategy for measuring and achieving them. Commit to continuous improvement.
4. Establish more rigorous and formal procedures to identify and manage non-financial risks. Integrate these into the central risk register and ensure that the board or a board committee reviews these risks regularly.
5. Articulate clearly in annual reports and accounts how the company's sustainability programmes mitigate risk and add value to the business. Prepare to report according to the new Operating and Financial Review standard from 1 April 2006.
6. Develop a communications strategy and reporting protocol that utilises annual reports, sustainability reports, the group's website(s), media and marketing releases. Report against selected key performance indicators and normalise data to allow comparison year-by-year and between companies.
7. Identify all key stakeholders at group and site level and develop a strategy to engage with them proactively and regularly.
8. Innovate and experiment with new technologies and solutions to environmental and social problems; roll out successful initiatives across all operating units. Encourage units to share ideas and solutions. Partner with expert organisations to share risk and costs.

The final report also includes detailed recommendations concerning each of the impact areas covered by the survey. In particular, the issue of climate change is highlighted as a key impact area that WWF and Insight recommend house-builders address at both a strategic and project level.

Recommendations for the government

1. Ensure that planning policy and supporting guidance is applied consistently across the UK.
2. Produce clear guidance to accompany PPS1, including definitions of sustainability.
3. Recommend the use of Regional Sustainability Checklists for Developments alongside planning policy, to complement the Code for Sustainable Buildings when it is introduced.
4. Ensure that the Code for Sustainable Buildings sets standards no less demanding than the EcoHomes 'Very Good' standard and encourage, and provide incentives for, its uptake within the industry.
5. Ensure better enforcement of building regulations and adopt the principles proposed by Hampton of adopting a lighter touch compliance regime with companies that perform well on sustainability issues, as demonstrated by analyses such as this.
6. Provide clearer guidance regarding the role of house-builders in delivering the social objectives of sustainable communities, and explore initiatives with them to achieve those objectives.
7. Introduce fiscal incentives to stimulate and reward developers and householders who adopt more sustainable practices.
8. Engage proactively with other private sector actors in the housing market to explore whether new products and services could be introduced to help to achieve its vision of sustainable communities in the UK.

Insight and WWF hope that companies will continue to make progress towards building more sustainable communities and stand ready to support their efforts, and those of the government, in doing so.

ENDNOTES

- i The analysis for the 2003 assessment was based on information available and engagement up until the end of September 2003. The full report, *Building Towards Sustainability: Performance and progress among the UK's leading house-builders*, was published in January 2004 and can be found on WWF's website: www.wwf.org.uk/sustainablehomes. Thirteen companies were included, Countryside Properties among them.
- ii The analysis for 2005 was based on reported information available at 31 May 2005 and further engagement with companies up until the end of July 2005. Only 12 companies were included; Countryside Properties declined to take part following its privatisation earlier in the year.
- iii The criteria are available in Appendix 1 of the report.
- iv The Living Planet Report:
http://www.panda.org/news_facts/publications/general/livingplanet/index.cfm
- v The majority of facts in this section were taken from the House of Commons Environmental Audit Committee Report, *Housing: Building a Sustainable Future, First Report of Session 2004/05*. See: <http://www.publications.parliament.uk/pa/cm200405/cmselect/cmenvaud/135/135.pdf>
- vi RIDDOR reportable incidents are all incidents that are legally reportable under the UK Reporting of Incidents, Diseases and Dangerous Occurrences Regulations 1995.

The mission of WWF is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable resources is sustainable
- promoting the reduction of pollution and wasteful consumption



www.wwf.org.uk

for a living planet®



Upstream conducted the analysis for this report on behalf of WWF and Insight Investment.

Upstream is a strategic sustainability consultancy specialising in the built environment sector. Upstream assists its clients to develop strategies for economic, environmental and social responsibilities, and to integrate and align them with their business goals.

Upstream

1 Quality Court
Chancery Lane, London
WC2A 1HR
Telephone: 020 7061 6430
Fax: 020 7061 6440

WWF-UK

Panda House, Weyside Park
Godalming, Surrey GU7 1XR
t: +44 (0)1483 426444
f: +44 (0)1483 426409